

WATERWORKS DISTRICT NO. 5 OF THE PARISH
OF ST. MARY, STATE OF LOUISIANA

Financial Statements

Year Ended May 31, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/22/10

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Waterworks District No. 5 of the
Parish of St. Mary, State of Louisiana
Centerville, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Waterworks District No. 5 of the Parish of St. Mary, State of Louisiana ("Waterworks District"), a component unit of the St. Mary Parish Government, as of and for the year ended May 31, 2010 which collectively comprise the Waterworks District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Waterworks District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Waterworks District as of May 31, 2010, and the respective changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2010, on our consideration of the Waterworks District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Waterworks District No. 5 of the Parish of St. Mary, State of Louisiana has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Information Schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Waterworks District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Franklin, Louisiana
October 17, 2010

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Net Assets
May 31, 2010

ASSETS

| | |
|---|--------------------|
| Current assets | |
| Cash | \$ 388,528 |
| Investments, at fair value | 531,920 |
| Accounts receivable-water billings | 203,177 |
| Accounts receivable-ad valorem taxes | 2,668 |
| Other receivables | 1,551 |
| Prepaid expenses | <u>39,799</u> |
| Total current assets | <u>1,167,643</u> |
| Non-current assets | |
| Deferred charges - unamortized bond issue cost | <u>18,643</u> |
| Total non-current assets | <u>18,643</u> |
| Restricted assets | |
| Meter Deposit Fund: | |
| Cash | 21,371 |
| Investments, at fair value | 103,098 |
| Sinking Fund for Public Improvement Bonds: | |
| Cash | 196,881 |
| Investments, at fair value | 41,190 |
| Capital Additions & Contingencies Fund | |
| Cash | 177,850 |
| Investments, at fair value | <u>147,281</u> |
| Total restricted assets | <u>687,671</u> |
| Waterworks system, plant and equipment (net of accumulated depreciation) | <u>4,462,259</u> |
| Total assets | <u>\$6,336,216</u> |

LIABILITIES AND NET ASSETS

Current liabilities

Payable from current assets

| | |
|-----------------------------------|---------------|
| Accounts payable | \$ 8,045 |
| Accrued expense | 8,638 |
| Due to other governments | <u>49,557</u> |
| Total payable from current assets | <u>66,240</u> |

Payable from restricted assets

Sinking Fund for Public Improvement Bonds:

| | |
|--|----------------|
| Bonds payable within one year (less current portion of deferred amount on refunding of \$7,255) | 126,745 |
| Interest payable | 15,051 |
| Water meter deposits | <u>108,683</u> |
| Total payable from restricted assets | <u>250,479</u> |

Total current liabilities 316,719

Long-term liabilities

| | |
|--|------------------|
| Bonds payable (net of current portion of bonds payable and noncurrent portion of deferred amount on refunding of \$72,550) | <u>1,427,705</u> |
|--|------------------|

Total liabilities 1,744,424

Net assets

| | |
|--|------------------|
| Investments in capital assets, net of related debt | 2,907,809 |
| Restricted | 563,202 |
| Unrestricted | <u>1,136,567</u> |
| Total net assets | <u>4,607,578</u> |

Total liabilities and net assets \$6,352,002

See accompanying notes to the financial statements.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended May 31, 2010

| | |
|--|--------------------|
| Operating revenues | |
| Charges for services: | |
| Water sales | \$ 965,991 |
| Service fees | 44,979 |
| Late payment fees | 15,301 |
| Collection fees | 14,976 |
| Intergovernmental - United States Government | <u>14,012</u> |
| Total operating revenues | <u>1,055,259</u> |
| Operating Expenses | |
| Personal services and related benefits | 453,245 |
| Supplies and materials | 155,750 |
| Other services and charges | 324,715 |
| Depreciation | <u>251,747</u> |
| Total operating expenses | <u>1,185,457</u> |
| Loss from operations | <u>(130,198)</u> |
| Non-operating revenues (expenses) | |
| Ad valorem taxes - maintenance | 313,333 |
| Ad valorem taxes- debt retirement | 165,738 |
| State revenue sharing | 8,814 |
| Investment income | 2,855 |
| Miscellaneous income | 17,974 |
| Bond interest | <u>(78,813)</u> |
| Total non-operating revenues (expenses) | <u>429,901</u> |
| Change in net assets | 299,703 |
| Net assets, beginning of year | <u>4,292,089</u> |
| Net assets, end of year | <u>\$4,591,792</u> |

See accompanying notes to the financial statements.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Cash Flows
Year Ended May 31, 2010

| | |
|--|-------------------|
| Cash flows from operating activities | |
| Receipts from customers and users | \$ 950,108 |
| Receipts from federal, state and local governments | 14,012 |
| Payments to suppliers for goods and services | (441,014) |
| Payments to employees for services | <u>(451,151)</u> |
| Net cash provided by operating activities | <u>71,955</u> |
| Cash flows from noncapital financing activities | |
| Ad-valorem taxes | 476,403 |
| State revenue sharing | 8,814 |
| Miscellaneous income | <u>17,974</u> |
| Net cash provided by noncapital financing activities | <u>503,191</u> |
| Cash flows from capital and related financing activities | |
| Acquisition and construction of capital assets | (37,723) |
| Interest received on restricted funds | 1,607 |
| Principal paid on general obligation bonds | (199,000) |
| Interest paid on general obligation bonds | <u>(80,950)</u> |
| Net cash flows used by capital and related financing activities | <u>(316,066)</u> |
| Cash flows from investing activities | |
| Purchase of investments | (48,954) |
| Proceeds from sale of investments | 93,065 |
| Interest earned on operating funds | <u>1,248</u> |
| Net cash provided by investing activities | <u>45,359</u> |
| Net increase in cash and cash equivalents | 304,439 |
| Cash and cash equivalents, beginning of year | <u>480,191</u> |
| Cash and cash equivalents, end of year | <u>\$ 784,630</u> |

(continued)

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Cash Flows (Continued)
Year Ended May 31, 2010

Reconciliation of cash and cash equivalents per the
statement of cash flows to the balance sheet:

| | |
|--------------------------------|-------------------|
| Unrestricted | \$ 388,528 |
| Restricted - meter deposit | 21,371 |
| Restricted - sinking fund | 196,881 |
| Restricted - capital additions | <u>177,850</u> |
| | <u>\$ 784,630</u> |

Reconciliation of loss from operations to net cash
provided by operating activities

Operating loss \$ (130,198)

Adjustments to reconcile operating loss
to net cash provided by operating activities:

| | |
|--|----------------|
| Depreciation expense | 251,747 |
| Amortization of deferred amount on refunding | 7,255 |
| Amortization of bond issue costs | 3,083 |
| Increase in accounts receivable | (95,819) |
| Increase in prepaid expenses | (2,468) |
| Decrease in accounts payable | (17,976) |
| Increase in accrued expenses | 2,094 |
| Increase in due to other governments | 49,557 |
| Increase in customer water meter deposits | <u>4,680</u> |
| Total adjustments | <u>202,153</u> |

Net cash provided by operating activities \$ 71,955

See accompanying notes to the financial statements.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

INTRODUCTION

Waterworks District No. 5 of the Parish of St. Mary, State of Louisiana was created by Ordinance No. 595 of the St. Mary Parish Police Jury, on September 5, 1954, for the purpose of establishing, acquiring, constructing, maintaining and operating a waterworks system for the benefit of the people of the Waterworks District. The Waterworks District is governed by a board of seven members. These board members are appointed by the St. Mary Parish Council. The board meets each month on the third Monday at the waterworks district office. The members receive a per diem of \$60 for each meeting attended. At May 31, 2010, there were approximately 1,992 customers receiving service.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the Waterworks District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied in governmental units. The Governmental Accounting Standards (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Waterworks District has elected not to follow subsequent private-sector guidance.

B. REPORTING ENTITY

The Waterworks District is a component unit of the St. Mary Parish Council, the financial reporting entity. The parish council is financially accountable for the Waterworks District because it appoints a voting majority of the board and has the ability to impose its will on them.

The accompanying financial statements present information only on the funds maintained by the Waterworks District and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

C. FUND ACCOUNTING

The Waterworks District is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities incurred. The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues: Water sales and service and collection fees are recorded when earned. Ad valorem and state revenue sharing taxes are recorded in the year the taxes are due and payable. Interest income is recorded when earned. All other revenues are recorded when received.

Expenses: Expenditures are recorded in the period that the liabilities are incurred.

E. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash includes amounts in demand deposits, interest bearing demand deposits, and time deposits. Under state law, the district may deposit funds in demand deposits, interest bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Under state law, the district may invest in United States bonds, treasury notes, or certificates. These are classified as investments if their original maturities exceed 90 days. Otherwise, they are classified as cash equivalents.

F. INTEREST RECEIVABLE

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

G. PREPAID EXPENSES

Payments made to vendors for services that will benefit periods beyond May 31, 2010, are recorded as prepaid expenses. At May 31, 2010, prepaid expenses were recorded as \$39,799.

H. RESTRICTED ASSETS

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "meter deposit fund" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The "capital additions and contingency fund" account is used to report funds set aside and restricted for use in major capital additions and repairs to the waterworks system.

When fund balance resources are available for a specific purpose in more than one classification, it is the Waterworks District's policy to use the most restrictive funds first.

I. WATERWORKS SYSTEM, PLANT AND EQUIPMENT

Fixed assets of the district are included on the balance sheet of the fund. Interest costs incurred during construction are capitalized. Fixed assets used in the proprietary fund type operations are valued at historical costs. Infrastructure fixed assets, consisting of the waterworks system, are capitalized along with other fixed assets. Depreciation of all exhaustible fixed assets used by proprietary fund type operations is charged as an expense against operations. Fixed assets on the balance sheet are net of accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets as follows:

| | |
|--------------------------------|---------------|
| Water plants, lines and meters | 5 – 50 years |
| Office building | 20 – 39 years |
| Furniture and equipment | 5 – 10 years |
| Trucks | 5 years |

J. CAPITALIZATION OF INTEREST COSTS

Interest costs incurred by the district during the construction of an asset for its own use are subject to capitalization based on the guidelines established by FASB Codification Section 835-20 (Capitalization of Interest Costs). There was no capitalized interest recorded in the financial statements in the years ended May 31, 2010.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

K. BOND ISSUANCE COSTS

Bond issuance costs for proprietary funds are deferred and amortized over the term of the bonds outstanding. Bond issuance costs are recorded as deferred charges on the balance sheet.

L. COMPENSATED ABSENCES

Under the district's vacation and sick leave policy, permanent employees shall earn vacation and sick leave. An employee shall be authorized annual leave in the following manner; effective with his/her anniversary date:

| <u>Years of Service</u> | <u>Annual Leave</u> |
|-------------------------|---------------------|
| Less than 1 year | 0 workdays |
| 1-5 years | 10 workdays |
| 6-15 years | 15 workdays |
| 16-20 years | 20 workdays |
| 21 or more years | 25 workdays |

Unused vacation leave can only be carried to the following calendar year when an employee is denied part of his leave because of an emergency.

Sick leave shall be earned at the rate of 1 day per month, up to 12 days per year. An employee may accrue up to 120 days of sick leave.

No liability has been accrued for compensated absences on the financial statements because the amount is immaterial.

M. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

N. NET ASSETS

In the Waterworks District's financial statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisional or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

O. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

P. RISK MANAGEMENT

The district is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance is purchased for claims arising from such matters.

2. CASH AND CASH EQUIVALENTS

At May 31, 2010, the district has cash and cash equivalents (book balances) totaling \$784,630 as follows:

| | |
|----------------------------------|------------------|
| Demand deposits | \$ 400 |
| Interest-bearing demand deposits | <u>784,230</u> |
| | <u>\$784,630</u> |

The deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At May 31, 2010, the district has \$808,401 in deposits (collected bank balances). These deposits are secured from risk by \$808,401 of federal deposit insurance and pledged securities with a market value at May 31, 2010 of \$795,910.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or the District will not be able to recover collateral securities that are in the possession of an outside party. As of May 31, 2010, the District's total bank balancers were fully insured and collateralized with securities held in the name of the District by the pledging financial institution's agent and therefore not exposed to custodial credit risk.

3. INVESTMENTS

State law allows the District to invest in direct United States Treasury obligations, bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by federal or US Government instrumentalities, which are federally sponsored; direct security repurchase agreements of any federal book entry only securities guaranteed by the US Government; time certificates of deposit of any bank domiciled or having a branch office in the State of Louisiana; savings account or shares of certain savings and loan associations and savings banks; certain accounts of federally or state chartered credit unions; certain mutual or trust fund institutions; certain guaranteed investment contracts; and investment grade commercial paper of domestic United States corporations.

Custodial credit risk is defined as the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment. The District's investment policy conforms to state law, as described above, which has no provision for custodial credit risk.

Concentration of credit risk relates to the amount of investments in any one entity. At May 31, 2010, the District had no investments in any entity which exceeded 5% of total investments, except for obligations of federal and state agencies.

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy conforms to state law, which does not include a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At May 31, 2010, the District had no investments with future maturities in excess of one year.

At May 31, 2010, the district's investments totaled \$823,489. All of the District's investments are invested in LAMP. The carrying value of the investment in LAMP is equivalent to fair value.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

3. INVESTMENTS (CONTINUED)

LAMP is administered by LAMP, Inc.; a non-profit corporation organized under the laws of the State of Louisiana, and is governed by a board of directors comprised of representatives from various local governments and statewide professional organizations. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. While LAMP is not required to be a registered investment company under the Investment Company Act of 1940, its investment policies are similar to those established by Rule 2-a7, which governs registered money market funds. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments.

The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. The fair market value of investments is determined on a weekly basis to monitor any variances between amortized cost and market value. For purposes of determining participants' shares, investments are valued at amortized cost. GASB Statement No. 31 requires that investments that fall within the definitions of said statement be recorded at fair value. However, Statement No. 31 also states that investments in an external investment pool can be reported at amortized cost if the external investment pool operates in a manner consistent with the Securities and Exchange Commission's (SEC's) Rule 2-a7. LAMP is an external investment pool that operates in a manner consistent with SEC Rule 2-a7.

4. RECEIVABLES

The district records water sales revenue in the month the services are rendered. At May 31, 2010, accounts receivables were recorded as \$203,177.

The financial statements contain no allowance for uncollectible accounts receivable. Management feels that accounts receivables are collectible and potential bad debt losses are immaterial.

5. AD VALOREM TAXES

The district's property tax is levied in October of each year on the assessed value of property within the District's taxing area. Taxes are due and payable by December 31. The taxes are delinquent on January 1, at which time an enforceable lien attaches to the property. The taxes are collected on behalf of the district by the Sheriff and then remitted to the district. Most of the taxes are actually received by the district in January and February. The tax rate for the year ended December 31, 2009 was 4.62 mills per \$1,000 for maintenance and operations and 2.40 mills per \$1,000 for bond and interest payments. Total taxes levied during the year ended May 31, 2010 was \$501,419.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

6. CHANGES IN FIXED ASSETS

The following is a summary of changes in fixed assets:

| | Balance May 31, 2009 | Additions | Deductions | Balance May 31, 2010 |
|-------------------------------|----------------------------|---------------------|-------------|----------------------------|
| Land | \$ 16,500 | \$ - | \$ - | \$ 16,500 |
| Water plant, lines and meters | 9,122,974 | 29,838 | - | 9,152,812 |
| Office building | 228,896 | - | - | 228,896 |
| Furniture & equipment | 148,661 | 7,885 | - | 156,546 |
| Trucks | 45,325 | - | - | 45,325 |
| Sub-Total | 9,562,356 | 37,723 | - | 9,600,079 |
| Less accumulated depreciation | (4,886,073) | (251,747) | - | (5,137,820) |
| Total | <u>\$ 4,676,283</u> | <u>\$ (214,024)</u> | <u>\$ -</u> | <u>\$ 4,462,259</u> |

Depreciation expense charged to operations for the year ended May 31, 2010, is \$251,747.

7. LONG-TERM DEBT

The following is a summary of the district's long-term debt transactions for the year ended May 31, 2010:

| | Water Revenue Bonds |
|-------------------------------|---------------------------|
| Bonds payable at June 1, 2009 | \$ 1,826,000 |
| Bonds matured | (199,000) |
| Bonds payable at May 31, 2010 | <u>\$ 1,627,000</u> |

Bonds payable at May 31, 2010 are comprised of the following individual issues:

Public improvement bonds outstanding:

| | |
|--|---------------------|
| \$1,305,000 Public Improvement Refunding Bonds, dated July 6, 2006, with a final maturity date of March 1, 2020, bearing interest at 4.33% per annum | <u>\$ 1,265,000</u> |
|--|---------------------|

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

7. LONG-TERM DEBT (CONTINUED)

Revenue bonds outstanding:

| | |
|--|-------------------|
| \$425,000 Water Improvement Bonds, dated November 1, 2004, with a final maturity date of November 1, 2019, bearing interest at 4.50% per annum | 362,000 |
| Less: deferred amount on refunding | <u>(72,550)</u> |
| Net revenue bonds | <u>\$ 289,450</u> |

The following is a schedule of future debt service requirements at May 31, 2010:

| Year | Public Improvement Bonds | | Revenue Bonds | | Total debt service |
|-----------|--------------------------|------------------|-------------------|------------------|--------------------|
| | Principal | Interest | Principal | Interest | |
| 2011 | \$ 105,000 | \$ 54,775 | \$ 29,000 | \$ 15,638 | \$ 204,413 |
| 2012 | 110,000 | 50,228 | 31,000 | 14,288 | 205,516 |
| 2013 | 115,000 | 45,465 | 32,000 | 12,870 | 205,335 |
| 2014 | 120,000 | 40,486 | 34,000 | 11,385 | 205,871 |
| 2015 | 125,000 | 35,290 | 35,000 | 9,833 | 205,123 |
| 2016-2020 | <u>690,000</u> | <u>91,580</u> | <u>201,000</u> | <u>23,423</u> | <u>1,006,003</u> |
| | <u>\$1,265,000</u> | <u>\$317,824</u> | <u>\$ 362,000</u> | <u>\$ 87,437</u> | <u>\$2,032,261</u> |

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage. The district is substantially in compliance with all such significant limitations and restrictions.

The total amount of interest costs incurred and charged to expense during the period was \$78,813.

8. METER DEPOSITS

As authorized under Louisiana Revised Statutes, funds totaling \$108,683 has been restricted in the Meter Deposit Fund for the purchase of water meters.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

9. PENSION PLAN

Plan Description. Substantially all employees of the St. Mary Parish Waterworks District No. 5 are members of the Parochial Employees Retirement System of Louisiana (System), a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the district are members of Plan B.

All permanent employees working at least 28 hours per week who are paid wholly or in part from parish funds and all elected parish officials are eligible to participate in the System. Under Plan B, employees who retire at or after age 62 with at least 10 years of creditable service or at or after age 55 with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final-average salary in excess of \$100 for each year of creditable service. Furthermore, employees with at least 10 years of creditable service, but less than 30 years, may take early retirement benefits commencing at or after age 60, with the basic benefit reduced 3 percent for each year retirement precedes age 62. In any case, monthly retirement benefits paid under Plan B cannot exceed the lesser of 100 percent of final-average salary or \$70 multiplied by total years of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Parochial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana 70898-4619, or by calling (504) 928-1361.

Funding Policy. Under Plan B, members are required by state statute to contribute 3.0 percent of their annual covered salary in excess of \$1,200 and the District is required to contribute at an actuarially determined rate. The current rate is 10.0 percent of annual covered payroll.

Contributions to the System also include one-fourth of one percent (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the District are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The District's contributions to the System under Plan B for the years ending May 31, 2010, 2009, and 2008 were \$25,456, \$20,034, and \$19,040, respectively, equal to the required contributions for each year.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

10. MAJOR CUSTOMERS

During the year the district had two major customers, each of whose purchases exceeded 10% of total sales. Sales to these customers were as follows:

| | |
|--------------------------------|-------------------|
| Cabot Corporation | \$ 247,398 |
| Columbian Chemical Corporation | <u>177,871</u> |
| Total | <u>\$ 425,269</u> |

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Supplemental Information Schedules
Year Ended May 31, 2010

OPERATING EXPENSES

The schedule of operating expenses is presented in order to provide a detailed breakdown of operating expenses for the year ended May 31, 2010. (Schedule 1)

BONDED INDEBTEDNESS

The schedules of bonded indebtedness are presented in order to provide a detail of future bond requirements for each bond issue. (Schedules 2 and 3)

COMPENSATION PAID BOARD MEMBERS

A schedule of compensation paid board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Louisiana Revised Statute Section 3819 provides for each board member to receive a per diem not to exceed \$60 for each meeting they attend, up to and including 24 meetings each year and for each special meeting not to exceed 12 per year. The St. Mary Parish Waterworks District No. 5 pays per diem of \$60 per meeting. (Schedule 4)

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

PROPRIETARY FUND TYPE - ENTERPRISE FUND

Schedule of Operating Expenses

Year Ended May 31, 2010

Operating expenses

Personal services and related benefits

| | |
|---|---------------|
| Salaries | \$ 323,124 |
| Hospitalization insurance | 68,091 |
| Payroll taxes | 24,239 |
| Retirement | 25,456 |
| Administrative charges from Sewerage District No. 5 | <u>12,335</u> |

| | |
|-------------------------|----------------|
| Total personal services | <u>453,245</u> |
|-------------------------|----------------|

Supplies and materials

| | |
|----------------|--------------|
| Chemicals | 139,108 |
| Office expense | 11,240 |
| Postage | <u>5,402</u> |

| | |
|------------------------------|----------------|
| Total supplies and materials | <u>155,750</u> |
|------------------------------|----------------|

Other service and charges

| | |
|-------------------------------|----------------|
| Accounting fees | 6,700 |
| Backflow prevention program | 5,460 |
| Board meetings | 5,280 |
| Dues and subscriptions | 520 |
| Education | 1,687 |
| Insurance-general | 64,895 |
| Maintenance-water system | 73,153 |
| Maintenance-water plant | 29,261 |
| Miscellaneous | 14,959 |
| Professional fees (bond cost) | 10,964 |
| Truck maintenance | 10,536 |
| Utilities | <u>101,300</u> |

| | |
|----------------------------------|----------------|
| Total other services and charges | <u>324,715</u> |
|----------------------------------|----------------|

| | |
|--------------|----------------|
| Depreciation | <u>251,747</u> |
|--------------|----------------|

| | |
|--------------------------|--------------------|
| Total operating expenses | <u>\$1,185,457</u> |
|--------------------------|--------------------|

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

May 31, 2010

Bonded Indebtedness
General Obligation Bonds
Dated November 1, 2004

| Maturity | Bond Numbers | Yearly Payments | | | Bonds Outstanding |
|----------|-----------------|-------------------|------------------|-------------------|----------------------|
| | | Principal | Interest | Total | |
| 2011 | R-6 | \$ 29,000 | \$ 15,638 | \$ 44,638 | \$ 333,000 |
| 2012 | R-7 | 31,000 | 14,288 | 45,288 | 302,000 |
| 2013 | R-8 | 32,000 | 12,870 | 44,870 | 270,000 |
| 2014 | R-9 | 34,000 | 11,385 | 45,385 | 236,000 |
| 2015 | R-10 | 35,000 | 9,833 | 44,833 | 201,000 |
| 2016 | R-11 | 37,000 | 8,213 | 45,213 | 164,000 |
| 2017 | R-12 | 38,000 | 6,525 | 44,525 | 126,000 |
| 2018 | R-13 | 40,000 | 4,770 | 44,770 | 86,000 |
| 2019 | R-14 | 42,000 | 2,925 | 44,925 | 44,000 |
| 2020 | R-15 | <u>44,000</u> | <u>990</u> | <u>44,990</u> | - |
| | | <u>\$ 362,000</u> | <u>\$ 87,437</u> | <u>\$ 449,437</u> | |

Original issue dated November 1, 2004 for \$425,000.

Paying Agent: Patterson State Bank, Patterson, Louisiana.

This obligation was incurred for the purpose of constructing and acquiring improvements to the waterworks plant and system for said Waterworks District No. 5 of the Parish of St. Mary, State of Louisiana.

Repayment shall be made from the revenues derived from the operations of the waterworks system in excess of statutory, necessary and usual charges to operate the system.

The bonds shall be callable for redemption in full, or in part, at any time on or after November 1, 2011.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

May 31, 2010

Bonded Indebtedness
Public Improvement Refunding Bonds
Dated July 6, 2006

| Maturity | Bond Numbers | Yearly Payments | | | Bonds Outstanding |
|----------|-----------------|--------------------|-------------------|--------------------|----------------------|
| | | Principal | Interest | Total | |
| 2011 | R-5 | \$ 105,000 | \$ 54,775 | \$ 159,775 | \$1,160,000 |
| 2012 | R-6 | 110,000 | 50,228 | 160,228 | 1,050,000 |
| 2013 | R-7 | 115,000 | 45,465 | 160,465 | 935,000 |
| 2014 | R-8 | 120,000 | 40,486 | 160,486 | 815,000 |
| 2015 | R-9 | 125,000 | 35,290 | 160,290 | 690,000 |
| 2016 | R-10 | 130,000 | 29,877 | 159,877 | 560,000 |
| 2017 | R-11 | 135,000 | 24,248 | 159,248 | 425,000 |
| 2018 | R-12 | 135,000 | 18,403 | 153,403 | 290,000 |
| 2019 | R-13 | 140,000 | 12,557 | 152,557 | 150,000 |
| 2020 | R-14 | 150,000 | 6,495 | 156,495 | - |
| | | <u>\$1,265,000</u> | <u>\$ 317,824</u> | <u>\$1,582,824</u> | |

Original issue dated July 6, 2006 for \$1,305,000.

Paying Agent: Patterson State Bank, Patterson, Louisiana.

This obligation was incurred for the purpose of advance refunding \$1,220,000 of outstanding Public Improvement Bonds, Dated March 1, 2000, maturing March 1, 2011 through March 1, 2020. The net proceeds of \$1,286,698 (after payment of \$18,302 in issuance costs) plus an additional \$17,008 of cash provided by the district was used to advance refund a portion of the Series 2000 bonds.

The bonds are secured by a special tax to be imposed on all property subject to taxation within the territorial limits of Waterworks District No. 5 of the Parish of St. Mary, State of Louisiana, sufficient in amount to pay the principal and interest as they severally mature.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANASchedule of Compensation Paid Board Members
Year Ended May 31, 2010

| <u>Board Member</u> | <u>Meetings Attended</u> | <u>Amount</u> |
|---------------------|------------------------------|----------------|
| Jack Benedietto | 14 | \$ 840 |
| Wendell Bogan | 15 | 900 |
| David Franklin | 15 | 900 |
| Donald Hahn | 16 | 960 |
| William Lanclos, Jr | 15 | 900 |
| Garland Romero | <u>13</u> | <u>780</u> |
| Total | <u>88</u> | <u>\$5,280</u> |

INTERNAL CONTROL, COMPLIANCE, AND OTHER INFORMATION

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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P. Troy Courville, CPA*
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Robert S. Carter, CPA*
Arthur R. Moon, CPA*

Tynas E. Nixon, Jr., CPA
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Penny Angelle Scroggins, CPA
Christine L. Cousin, CPA
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Mandy B. Self, CPA
Paul L. Delcambre, Jr. CPA
Wanda F. Arcement, CPA, CVA
Kristin B. Dauzat, CPA
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Carolyn C. Anderson, CPA

Retired:
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners of
Waterworks District No. 5 of the
Parish of St. Mary, State of Louisiana
Centerville, Louisiana

We have audited the financial statements of the business-type activities of the Waterworks District No. 5 of the Parish of St. Mary, State of Louisiana ("Waterworks District"), as of and for the year ended May 31, 2010, which collectively comprise the Waterworks District's basic financial statements and have issued our report thereon dated October 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of

findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2010-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Waterworks District's response to the finding identified in our audit is described in the accompany schedule of management's corrective action plan for current year findings. We did not audit the Waterworks District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Waterworks District's board and management, the St. Mary Parish Government, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Franklin, Louisiana
October 17, 2010

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Summary Schedule of Prior Audit Findings
Year Ended May 31, 2010

| <u>Ref. No.</u> | <u>Description of Finding</u> | <u>Corrective Action Planned</u> | <u>Name of Contact Person</u> | <u>Anticipated Completion Date</u> |
|-----------------|-----------------------------------|--------------------------------------|---------------------------------------|--|
|-----------------|-----------------------------------|--------------------------------------|---------------------------------------|--|

Section I - Internal Control and Compliance Material to the Financial Statements

Section II - Management Letter

Note: There are no prior year audit findings to be listed in this schedule.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Findings and Questioned Costs
Year Ended May 31, 2010

Part I Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report – Financial Statements

An unqualified opinion has been issued on the Waterworks District's financial statements as of and for the year ended May 31, 2010.

Deficiencies – Financial Statements

There was one deficiency in internal control over financial reporting disclosed during the audit of the financial statements. We consider the deficiency to be a material weakness.

Material Noncompliance – Financial Statements

There were no material instances of noncompliance noted during the audit of the financial statements.

FEDERAL AWARDS

This section is not applicable for the year ended May 31, 2010.

Part II Findings Relating to an Audit in Accordance with *Government Auditing Standards*

2010-1 Application of GAAP (generally accepted accounting principles)

Finding: Management and staff lack the training and expertise in the selection of GAAP in the financial statement preparation process.

Criteria: SAS 115, *Communicating Internal Control Related Matters Identified in an Audit*, AU§325.05 states in pertinent part:

“A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A deficiency in *design* exists when –

- A control necessary to meet the control objectives is missing; or

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Findings and Questioned Costs (Continued)
Year Ended May 31, 2010

- An existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

A deficiency in *operation* exists when –

- The person performing the control does not possess the necessary authority or competence to perform the control effectively.”

Furthermore, AU §325.29 identifies the following as a deficiency in the design of (internal) controls:

“Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting functions lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity’s financial transactions or preparing its financial statements.”

Cause: The cause of the condition is the result of a failure or inability to design or implement policies and procedures necessary to achieve adequate internal control.

Effect: Financial statements and related supporting transactions may reflect a material departure from generally accepted accounting principles.

Recommendation: The additional costs required to achieve the desired benefit may not be economically feasible.

Part III Findings and Questioned Costs Relating to Federal Programs

At May 31, 2010, the Waterworks District did not meet the requirements to have a single audit in accordance with OMB Circular A-133; therefore, this section is not applicable.

WATERWORKS DISTRICT NO. 5 OF THE
PARISH OF ST. MARY, STATE OF LOUISIANA

Management's Corrective Action Plan for Current Year Findings
Year Ended May 31, 2010

2010-1 Application of GAAP

It is the opinion of the board and the Waterworks District's management that it would be more cost effective for the Waterworks District to outsource the financial statement preparation process to the independent auditor rather than have the Waterworks District incur the additional costs for personnel to achieve the necessary expertise to prepare financial statements in accordance with generally accepted accounting principles.